



Networth News

State of Utah, Department of Financial Institutions, Fourth Quarter 2005

COMMISSIONER'S COMMENTS

G. Edward Leary, Commissioner

OMBUDSMAN AT THE FEDERAL AGENCIES

I was recently contacted by one of the federal agencies Ombudsman concerning the services we offer. I thought a review of their responsibilities and services would be valuable for all.

Section 309 of the Riegle Community Development and Regulatory Improvement Act of 1994, 12 U.S.C. 4806, requires the Federal banking agencies including the National Credit Union Administration to appoint an Ombudsman. Section 309 provides that the Ombudsman:

- Act as a liaison between the agency and any affected person with respect to any problem the

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CHIEFLY SPEAKING

Michael Jones, Chief Examiner

Last year, three "unusual" events occurred in the Department of Financial Institutions. Unusual in that it has been awhile since the last time these events took place. While some events happen at fairly regular intervals, these had gone beyond what was expected.

The first event was in the area of examiner turnover. For the first time in two and a half years, the Department has had examiners leave to pursue other opportunities. Not since the "Financial Institutions Examiner" benchmark was created in July of 2002 has the Department had turnover in the examination staff. This was the longest period the Department has gone without examiner turnover in 20 years. While some turnover is always anticipated, the number of examiners who left was unexpected. Between April and November, five examiners resigned. Four accepted positions with depository institutions the Department regulates and one moved out-of-state to pursue an employment opportunity for another family member. These resignations represented a 14 percent turnover in the examination staff.

The second event was directly influenced by the first. With turnover comes the opportunity to hire new examiners. In late August, the recruitment process began. It had been three and a half years since the Department last hired new examiners. This was also the longest period in 20 years that the Department had gone without new examiners. As 2006 began, the Department had more examiners on staff than it has ever had. With authorization for 37 examiners, the Department has seldom had all its examiner positions filled. During the last two years, the Department has purposely operated with some positions vacant. With an opportunity to hire examiners, it was decided that it was time to fill as many vacant positions as possible.

The final unusual event was the result of a review of the Department's funding sources. One reason the

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party may have in dealing with the agency resulting from the regulatory activities of the agency, and

- ensure that safeguards exist to encourage complainants to come forward and to preserve confidentiality.

What the Ombudsman Does

The Ombudsman's responsibilities are to

- act as a facilitator and mediator for the resolution of complaints concerning regulatory or supervisory actions;
- where the Ombudsman is not the appropriate forum, direct complaints to the appropriate appeals process of other forum;
- ensure that complaints about regulatory actions are addressed in a fair and timely manner; and
- receive complaints of retaliation when a party has used the Ombudsman or any other existing avenue of appeal or complaint forum, and take steps to resolve those complaints.

What the Ombudsman Does Not Do

The Ombudsman does not

- take sides (the Ombudsman maintains a neutral position);
- handle or mediate disputes for which there is an existing avenue of appeal or other forum, such as an enforcement proceeding, an appeal of a material supervisory determination (other than a retaliation complaint), or a matter within the jurisdiction of the Board's Inspector General; or
- handle complaints concerning internal Board functions, such as personnel and procurement.

How Is Your Confidentiality Protected?

The Ombudsman's office has established safeguards to preserve confidentiality, including dedicated telephone and fax lines and secure file facilities. Except in unusual circumstances, information or material provided by the complainant in the course of review of a complaint (including the identity of the complainant) **will not** be disclosed outside of the Ombudsman's office, unless the complainant authorizes disclosure to assist in resolution of the problem.

What to Do if You Have a Complaint

With or regarding a member bank or holding company under the jurisdiction of the

FEDERAL RESERVE BOARD:

- **Telephone**

Dial toll free 1-800-337-0429 and leave a message

- **Fax**

Send written material to 202-530-6208

- **Mail**

Margaret McCloskey Shanks, Associate Secretary
Ombudsman
Federal Reserve Board
20th & C Streets, NW, Mail Stop 28
Washington, DC 20551

FEDERAL DEPOSIT INSURANCE CORPORATION:

- **Telephone**

1-877-ASK-FDIC (option 3)
(1-877-275-3342)

- **Email**

Ombudsman@fdic.gov

- **Mail**

FDIC Office of the Ombudsman
550 Seventeenth Street, NW
PA/1730-2100
Washington, DC 20429

NATIONAL CREDIT UNION ADMINISTRATION:

- **Telephone**

703-518-6510

- **Mail**

National Credit Union Administration
Carol Bullock, Ombudsman
1775 Duke Street
Alexandria, VA 22314-3428

Application Activity Report
Utah Department of Financial Institutions
For quarter ending September 30, 2005

Branch Approval	Address	Received	Status
Transwest Credit Union	2277 E Ft Union Blvd, Midvale	8/16/04	Opened 12/1/04
Utah Central Credit Union Extension	5625 W 13100 S, Herriman	8/17/04 8/4/05	Approved 8/31/04 Approved 8/12/05
Members First Credit Union	120 E 1000 S, Brigham City	10/22/04	Approved 11/23/04
Nebo Credit Union	560 N Main, Springville	1/6/05	Opened 5/25/05
Premier Services Credit Union	outlet shared services of Mountain America Credit Union	1/14/05	Suspended 1/31/05
Balance Rock Credit Union	494 E Main, Price	1/26/05	Opened 5/2/05
State Bank of Southern Utah	145 S River Rd, St George	2/18/05	Approved 3/10/05
Barnes Banking Company	1220 S State St, Orem	4/11/05	Approved 5/4/05
Newspaper Employees Credit Union	90 S 400 W #600, SLC	6/2/05	Opened 7/18/05
Bank of American Fork	2691 W 12600 S., Riverton	8/5/05	Approved 8/29/05
Transportation Alliance Bank	1172 W. 2100 S., Ogden	8/8/05	Approved 8/31/05
Relocations	Address	Received	Status
Bank of American Fork	from 408 E 12300 S, Draper to 700 E 12300 S, Draper	11/3/04	Approved 11/15/04
Grand County Credit Union	from 186 W Center St, Moab to 725 N Main, Moab	4/26/05	Approved 5/13/05
Exante Bank	from 2795 E Cottonwood Pkwy to 2525 Lake Park Blvd #110, SLC	7/6/05	Opened 8/1/05
De Novo Charter	Address	Accepted	Status
ComData Extension Extension	500 N Market Place Dr. #250 Centerville UT	9/25/03 11/19/04 5/27/05	Approved 12/19/03 Approved 12/23/04 Approved 6/15/05
Allegiance Direct Bank	136 W Center St Cedar City UT	12/1/04	Approved 2/22/05

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... **Application**, continued from page 3

Magnet Bank	2825 E Cottonwood Pkwy #180 Salt Lake City UT	1/28/05	Approved 4/21/05
Lehman Brothers Commercial Bank	2825 E Cottonwood Pkwy #535 Salt Lake City UT	1/28/05	Opened 8/24/05
Union Financial Services Corp.	181 E 5600 S Ste 240 Salt Lake City UT	2/28/05	Approved 5/25/05
Daimler Chrysler	268 S State St, Ste 200 Salt Lake City UT	7/6/05	
Lease Corp of America	5532 Lillehammer Ln, Ste 401 Park City UT	7/22/05	Approved 8/31/05
CapitalSource Bank	2817 Canyon View Dr Salt Lake City UT	8/16/05	
Sallie Mae Bank	5217 S State St, Ste 201 Salt Lake City UT	8/16/05	
Loan Production Office		Received	Status
Centennial Bank	St George	7/26/04	Opened 8/1/05
Magnet Bank	Salt Lake City	5/5/05	

Application Activity Report
Utah Department of Financial Institutions
For quarter ending December 31, 2005

Branch Approval	Address	Received	Status
Utah Central Credit Union	5625 W 13100 S, Herriman	8/17/04	Approved 8/31/04
Extension		8/4/05	Opened 10/15/05
Members First Credit Union	120 E 1000 S, Brigham City	10/22/04	Opened 10/11/05
Premier Services Credit Union	outlet shared services of Mountain America Credit Union	1/14/05	Suspended 1/31/05
State Bank of Southern Utah	145 S River Rd, St George	2/18/05	Approved 3/10/05
Barnes Banking Company	1220 S State St, Orem	4/11/05	Approved 5/4/05

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... **Application**, continued from page 4

Bank of American Fork	2691 W 12600 S., Riverton	8/5/05	Approved 8/29/05
Transportation Alliance Bank	1172 W. 2100 S., Ogden	8/8/05	Opened 10/1/05
The Village Bank	650 W Telegraph St, St George	9/19/05	Approved 10/17/05
Centennial Bank	Center Street and Orem Blvd, Orem	9/29/05	Approved 10/17/05
Centennial Bank	1066 W South Jordan Pkwy, S Jordan	12/12/05	Accepted 12/15/05
Meadow Gold CU	all shared branch locations	10/6/05	Opened 10/18/05
SunFirst Bank	1150 W State Hwy 9, Hurricane	10/28/05	Approved 11/29/05
Weber Credit Union	5300 S Adams, Ogden UT	11/10/05	Approved 11/21/05
Relocations	Address	Received	Status
Bank of American Fork	from 408 E 12300 S, Draper to 700 E 12300 S, Draper	11/3/04	Approved 11/15/04
Grand County Credit Union	from 186 W Center St, Moab to 725 N Main, Moab	4/26/05	Approved 5/13/05
Exante Bank	from 2795 E Cottonwood Pkwy to 2525 Lake Park Blvd #110, SLC	7/6/05	Opened 8/1/05
Newspaper Employees CU	from Main Street to 4770 S 5600 W, Kearns	9/30/05	Approved 10/17/05
Field of Membership Expansions			
Credit Union	to include	Received	Status
Utah Power Credit Union	add member of the Board of Directors of PacifiCorp	10/21/05	Approved 11/1/05
De Novo Charter	Address	Accepted	Status
ComData	500 N Market Place Dr. #250 Centerville UT	9/25/03	Approved 12/19/03
Extension		11/19/04	Approved 12/23/04
Extension		5/27/05	Approved 6/15/05
Extension		12/6/05	Approved 12/14/05
Alliance Direct Bank	136 W Center St Cedar City UT	12/1/04	Approved 2/22/05
Magnet Bank	2825 E Cottonwood Pkwy #180 Salt Lake City UT	1/28/05	Opened 9/29/05

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... **Application**, continued from page 5

Lehman Brothers Commercial Bank	2825 E Cottonwood Pkwy #535 Salt Lake City UT	1/28/05	Opened 8/24/05
Union Financial Services Corp.	181 E 5600 S Ste 240 Salt Lake City UT	2/28/05	Approved 5/25/05
Daimler Chrysler	268 S State St, Ste 200 Salt Lake City UT	7/6/05	
Lease Corp of America	5532 Lillehammer Ln, Ste 401 Park City UT	7/22/05	Approved 8/31/05
CapitalSource Bank	2817 Canyon View Dr Salt Lake City UT	8/16/05	Approved 12/20/05
Sallie Mae Bank	5217 S State St, Ste 201 Salt Lake City UT	8/16/05	Opened 11/28/05
Loan Production Office		Received	Status
Centennial Bank	St George	7/26/04	Opened 8/1/05
Magnet Bank	Salt Lake City	10/11/05	Opened 11/1/05
Magnet Bank	Atlanta GA	10/11/05	Opened 11/1/05
Magnet Bank	Raleigh NC	10/11/05	Opened 11/1/05
Magnet Bank	Maitland FL	10/11/05	Opened 11/1/05
Imperial Capital Bank	Draper	11/8/05	Opened 7/1/05
First Utah Bank	West Valley City	11/15/05	Approved 11/18/05
First Utah Bank	Sandy	11/15/05	Approved 11/18/05
Community South Bank	Salt Lake City	11/4/05	Approved 11/23/05
Southwest Community Bank	Draper	11/22/05	Opened 12/21/05
America West Bank	Draper	11/23/05	Approved 12/12/05
American West Bank	St George	12/21/05	

Proposal to Change Risk-Based Capital

Tom Bay, Supervisor of Banks

The Federal Agencies have released for comment, as an advanced notice of proposed rulemaking (ANPR), a proposal for changing the capital requirements for those U.S. banks that will not be following Basel II. Known as Basel 1A, these proposed changes include:

- Basing risk weights for credit exposures, collateral, and guarantees on external ratings (e.g., S&P, Moody's).
- Using LTV ratios as the basis of risk weights for first lien 1-4 family residential mortgages.
- Applying a 10% credit conversion factor for short-term commitments with an original maturity of less than one year that are not unconditionally cancelable.
- Implementing higher risk weights for loans 90 days or more past due or in nonaccrual.
- Implementing higher risk weights for certain acquisition, development, and construction loans.
- Applying a 75% risk weight for certain small business loans.
- Imposing a risk-based capital requirement for securitizations of personal and business credit card accounts, and other revolving credit exposures.

CSBS (Conference of State Bank Supervisors) has developed an analysis spreadsheet product that can be used to estimate the possible effects of these proposed changes on a bank's required capital. The spreadsheets produce estimate of bank capital requirement under Basel 1A proposals based on (1) Call Report data, and (2) the input of certain user assumptions about a bank's portfolio.

Depending on a particular bank's portfolio make-up, Basel 1A could have little impact or a significant impact on that bank. The product takes just a few minutes to understand, and then a few more minutes to input the data and assumptions. The Department recommends that management of each bank take the time to run the analysis product to understand the impact this proposal has on each bank. There is a full explanation of the methodology and instructions for use contained in the analysis spreadsheet product. It can be found on the CSBS website (www.csbs.org). The main page has a link to the Basel 1A proposal and the analysis spreadsheet product.

To get a view of the effect the proposal may have on Utah banks, the Department ran a sample of bank data through the analysis. Results indicate that, depending on a bank's portfolio make-up and risk profile (loan-to-value ratios for residential RE, size and term of SBA loans, amount of borrower equity on acquisition, development, and construction loans, etc.), the proposal could have a significant impact on a bank's risk based capital requirement. Banks with a conservative profile would see a drop in required capital, while banks with a more aggressive profile would likely see a significant increase in required capital. Also, it appeared that banks with a moderate profile would see minimal change in required capital.~

On The Web . . .

An electronic version of the Networth News, including past issues, is available on the Department's website.

The Department of Financial Institutions' website provides useful information for the general public and financial institutions within the State of Utah. Among the website contents is general information about the Department, listings of all State and Federal chartered financial institutions located in Utah, and general information about the various types of financial institutions which the Department charters. Also available are consumer warnings, and various addresses by Commissioner Leary.

The website is located at:

www.dfi.utah.gov

The FDIC Minority, Community Development, and Non-Branch Banking Task Force

Eva Rees, Supervisor of Consumer Credit and Mortgage Lending

In August of 2004, a task force was formed. It was envisioned to assist large industrial banks in meeting their Community Reinvestment Act (CRA) requirements and to assist smaller community development institutions around the country in getting funds from these large institutions to continue their community development activities. Since many of the industrial banks have a national customer base, it is difficult for them to meet the CRA needs in their limited assessment area "communities."

Most of the industrial banks are chartered in Utah and approximately half of the Utah industrial banks are involved in the Task Force.

The task force soon became the FDIC Minority, Community Development, and Non-Branch Banking Task Force (Task Force.) The goal of the Task Force was to help minority and community development financial institutions in continuing their important localized community development initiatives as well as aid specialty and non-branch-banks in obtaining valuable CRA credit in areas outside their limited assessment areas. .

Just about a year later, we had some natural catastrophes in the U.S., two of the most notable being the terrible hurricanes of 2005, Katrina and Rita. Fortunately, the Task Force had been formed a year earlier and was up and running. The Task Force, as well as individual industrial banks, was instrumental in quickly responding to the needs in the Gulf area. As of early January 2006, the industrial banks had committed to the efforts in the amounts of grants in excess of \$120,000. Additionally, the industrial banks through the Task Force committed over \$3 million in below-market rate deposits to minority-owned banks in the devastated communities and additional deposits exceeding \$18 million at market rates.~

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Department was operating with vacant positions was to control our finances; to match expenditures with revenues and maintain, as much as possible, an adequate reserve in our restricted account. With the decision to fill vacant positions, a review of our funding sources and anticipated expenditures was made.

It had been 15 years since the Department last sought Legislative approval to increase our fees. Assessments on depository institutions were increased, effective July 1, 1991, to raise needed revenues. Since then, assessments have been reduced twice; in 1998, to return assessments to their pre-1991 levels, and again in 2001, to adjust the fees paid by the largest institutions.

In the 2006 Legislative session, the Department will be seeking approval to increase fees paid by more than just depository institutions. Our request will raise the annual assessments paid by all but the smallest depository institutions (at levels less than our 1991 request), increase the registration and examination fees paid by non-depository financial institutions, and raise the fee required when submitting an application seeking Department approval. With these increases, our funding sources should be sufficient to cover authorized expenditures, enabling the Department to maintain a fully staffed examiner pool and provide for an adequate reserve in the restricted account.

Three "unusual" events. Each was not monumental in and of itself. However, together these three events will have a significant affect on the Department in 2006 and in the years to come.~

Networth News
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801-538-8830